



City of Seattle

Office of City Auditor

Susan Cohen, City Auditor

MEMORANDUM

DATE: January 10, 2006

TO: Councilmember Peter Steinbrueck

FR: Susan Cohen, City Auditor *Susan Cohen*

RE: Pro Parks Levy Oversight Review

As you recall, at your request, we initiated a review of the Pro Parks Levy. Citizen observers and participants in the Pro Parks Levy process had raised concerns about:

- The role of the Pro Parks Levy's Citizen Oversight Committee,
- The timing of presentations of budget and financial information to the committee, and
- Overhead costs related to Pro Parks Levy projects.

In November 2004, we shared our initial findings with officials from the Seattle Parks and Recreation Department (Parks). To address our findings, we recommended that the department develop an action plan for the Pro Parks Levy Citizen Oversight Committee (Oversight Committee).

The action plan was developed by Parks staff and presented for discussion at meetings of the Oversight Committee on January 24, June 27, July 25, and September 26, 2005. Parks has provided us with an update of their progress with the action plan (See Appendix A). We are satisfied with the progress that Parks has made on the action plan's elements, including the development of a primer on project costs that the Oversight Committee had initially requested in December 2003 (See Appendix B).

We would now like to close this inquiry. Parks staff members have provided good cooperation on this project, and we greatly appreciate their hard work as well as that of the members of the Oversight Committee. If you have any questions, or would like more information, please feel free to contact me at 233-1093 or Claudia Gross Shader, Assistant City Auditor, at 684-8038.

cc. Ken Bounds, Superintendent, Seattle Parks and Recreation
Carol Everson, Director of Finance, Seattle Parks and Recreation
Susan Golub, Office of the Superintendent, Seattle Parks and Recreation
Pro Parks Levy Oversight Committee
John Franklin, Chief of Departmental Operations, Mayor's Office
Helen Welborn, Budget Analyst, Department of Finance



MEMORANDUM

TO: Susan Cohen, City Auditor
FROM: Ken Bounds, Superintendent
Carol Everson, Budget and Administrative Services Director *Carol Everson*
Department of Parks and Recreation
DATE: August 1, 2005
SUBJECT: Pro Parks Levy Oversight Committee Review

The Department of Parks and Recreation has continued its implementation of the Action Plan for Management Changes that we developed as a result of the City Auditor's review of the Pro Parks Levy Oversight Committee. This memorandum provides a brief history of the audit review and provides our response to the observations raised in the review.

Background

In response to issues raised by citizens and a City Councilmember, the City Auditor's Office conducted a review of the Pro Parks Levy Oversight Committee, focusing on the role of the Committee, the timing of presentations and overhead costs. In November 2004, the Auditor provided Parks with a preliminary report which included 10 observations. In January 2005, Parks presented an action plan to the Oversight Committee and the Auditor's Office which responded to the observations. The Committee's review of the action plan and some of its implementation was delayed to June and July 2005 because the Oversight Committee meetings in the intervening months were taken up with the Levy Opportunity Fund process.

Action Plan Implementation

Parks' action plan has 3 sections related to the 3 focus areas of the audit review.

1. Role of the Committee

- a. Develop a set calendar for Committee action: A calendar for presentations to the Committee was presented and approved at the June Committee meeting (Attachment A).
- b. Indicate on meeting agendas when items require a formal vote: First implemented on the January 24, 2005 meeting agenda and continued since.
- c. Solicit input from the Committee regarding how well they understand their role and ideas for improvement: First discussed at the January 24, 2005 meeting and will be scheduled for every January so that we can continue to formally solicit the Committee's views.

2. Timing of Budget and Financial Briefings

a. Establish guidelines for when a project is brought to the Committee for discussion of expenditure issues: The issue of what the threshold should be for bringing budget issues to the Committee was discussed at the June 27th Committee meeting (Attachment A). Parks brings all projects with budget issues to the attention of the Committee.

b. Develop a list of issues for which the Committee takes a formal vote: This list was presented and approved at the June 27th Committee meeting (Attachment A).

c. Continue to provide quarterly reports to the Committee on development and acquisition projects and programs and provide them on a regular set schedule. Provide monthly financial reports as requested by the Committee for specific projects: A schedule for quarterly reports was approved at the June 27 Committee meeting (Attachment A). The Committee concluded it did not wish to receive monthly financial reports, stating that the quarterly reports were sufficient (documented in the January 24, 2005 minutes of the Pro Parks Levy Oversight Committee, available at <http://www.seattle.gov/parks/proparks/committee/minutes/2005/01-24-05.pdf>).

d. Provide better follow-up on issues for which the Committee wants additional information or follow-up reporting: Beginning with the January 24, 2005 meeting, meeting, agendas have included a list of "issues to be addressed."

3. Overhead Costs

a. Write a primer on project costs: A draft cost primer was presented to the Committee at the July 25th meeting (Attachment B). Based on revisions suggested by the Committee, Parks will prepare a redraft that will be presented at the September 26 Committee meeting (no meeting is scheduled for August). The Committee generally liked the first draft but suggested that a more visual/graphic presentation be added to the Frequently Asked Question format.

b. Include in the cost primer a narrative description of how overhead costs are calculated with a sample budget: The first draft included narrative answers to questions on how overhead is calculated. The redraft will add graphic information which may be a sample budget, project timeline, and/or a bar graph showing what project costs are – all of these were suggested by the Committee at the July meeting.

ATTACHMENT A

Follow-up Items from Auditor's Review of the Oversight Committee
Pro Parks Levy Oversight Committee
June 21, 2005

COMMITTEE CALENDAR

The Pro Parks Levy Oversight Committee will receive quarterly updates on the major Levy Programs and twice yearly updates on the trails and art programs, according to the following calendar. (The Committee historically has not met in August or December. Should additional meetings be cancelled, the report scheduled for that month will be moved to the next meeting date.)

Subject	Reporting Months
Development Project Update	January, March, June, October
Acquisition Project Update	February, May, September, November
Programming Update	January, April, July, October
Trails Update	February, September
Arts Update .	March, November

GUIDELINES FOR ADDITIONAL PROJECT REPORTS

The auditor's report suggests establishing a budget percentage, such that when a project goes over budget by that percent, a report is made to the Committee. Department practice has been, and will continue to be, to report all budget overruns to the Committee in the quarterly report. Reports will cover up-front allocations for projects where we know before the project begins that available funding is not adequate, (e.g. Ballard Commons Park); and projects that through changes or unanticipated costs go over budget during project construction, (e.g. Golden Gardens Bathhouse).

FORMAL VOTE ISSUE LIST

The Committee will take a formal vote on the following items, and the need for a formal vote will be indicated on the agenda:

1. Reallocation of funds among projects;
2. Changes in project location;
3. Project scheduling;
4. Opportunity Fund projects and their scheduling; and
5. Approval of the Annual Report.

ATTACHMENT B

DRAFT
July 25, 2005



CAPITAL PROJECT BUDGETS AND COSTS

Overview

Seattle Parks and Recreation develops project budgets in much the same way project budgets are developed throughout the City. Once a project is ready for development, we establish an initial budget based on the appropriation and funding for the project. This is true for projects funded by the Pro Parks Levy as well as by other funding sources. We use a standard template to develop the initial budget. This initial budget is the baseline for future changes, when contracts, bid amounts and other costs become known. The staff updates the budget several times during the course of the project, adjusting contingencies to reflect additions or deletions to project scope and other changes. We generally break down our budgets into three categories:

Planning
Design
Development/Construction

Within these three categories, a variety of specific elements are included such as consultant costs, contractor costs, permitting costs, staff time for coordination, and public meetings.

The project manager is responsible for estimating the initial costs, then balancing the overall budget based on the final numbers, adjusting many elements throughout the life of the project to keep the overall budget amount the same.

Frequently Asked Questions

How are project budgets established?

- In preparation for a levy, such as the Pro Parks Levy and the Community Center Levy, we identify and select projects with the help of planning documents and considerable public input. We use historical cost information to develop rough cost estimates for each project, because at the time a levy is being planned and proposed, all the specific elements of the project aren't yet known. Final scoping and detailed estimates can be developed only after a project is funded.

- For Major Maintenance projects in the annual Capital Improvement Program (CIP), staff develop rough estimates and general project scopes. The scopes and estimates are entered into the CIP in two-year increments and the City Council approves the projects.
- As we define the project scope and identify individual components, the project manager will update the budget to reflect the actual costs for each line item. The total budget amount remains the same unless the project manager receives permission from the Parks Project Steering Committee and the Superintendent to add funds. The Project Steering Committee is an internal project review committee made up of Parks division directors.

What are the costs that are charged to a Pro Parks project?

- Pro Park Levy projects can only be charged for direct and indirect items needed to complete that particular project. Some project costs are obvious, such as the architect and the contractor. However, there are other less obvious elements and costs that are also part of the project. For example, the project manager uses a computer to communicate, to schedule, and to monitor costs. We do not charge the entire computer to any one project, nor do we divide up the costs of the computer and charge it to Pro Parks projects. What we do instead is include a rate for the project manager's time which will cover those costs. So, when a project manager charges an hour to the project, the rate charged covers items such as computers, cars to drive to the job, and an average estimate of the cost for the time spent by the project manager in training, sick leave, and other associated activities.

Do Pro Parks budgets absorb Parks costs not related to the Levy?

- No. Costs for the Community Center Levy are charged to community center projects. Costs for Major Maintenance projects are charged to Major Maintenance projects. The work we do in providing general oversight to existing parks and park facilities is charged to the "General Fund." These items include property issues, answering questions from the public regarding existing parks, providing information to other agencies regarding existing parks, assisting the Parks Operations and Facility Maintenance divisions with technical information for existing parks.

What are "soft" costs?

- Soft costs are the costs other than the construction contract amount that can change from project to project. In Parks project budgets, soft costs include the cost of everything that isn't the construction contract amount. This includes design, sales tax, design contingency, project management, surveys and public process costs. Some municipalities define soft costs as any costs besides design and construction.

What are "hard" costs?

- Hard costs are the construction contract amounts without sales tax

What are "overhead" costs?

- On Parks projects, there is an overhead rate applied to project managers' time. The rate is determined by how many staff are working on the project and numerous other criteria. The rate is reviewed annually and sometimes adjusted. The charges pay for staff supplies, gas, vehicles, and other equipment that are used for the project. We use this method instead of tracking every pencil, computer, and vehicle mile for each project.

What is CCA?

- This is an acronym for Construction Contract Amount. This is the amount of the contract with the construction contractor. The CCA is only one part of the overall project budget.

Do City projects cost more than those in the private sector?

- This is difficult to determine one way or the other. All construction projects have certain costs: an architect, a contractor, permits, sales tax, street use fees and other items. Some private sector jobs are negotiated rather than awarded by low bid; therefore the developer or owner may be paying more in fees to get the contractor they desire. City projects have certain costs for project requirements (i.e., required by law) that may not be required in the private sector, such as contractor insurance requirements, prevailing wages, equal benefits, and 1% for Art. The main differences for City projects vs. private sector projects are:
 - The City must publicly bid the project, and
 - The City must select consultants based on the lowest bid, providing that the consultant meets the established minimum qualifications.
 - City project budgets must include a public notification and involvement process.
 On private sector projects, the rates for the staff are usually higher, and the developer and contractor also charge overhead rates to accommodate the home office expenses. Also, private sector projects charge a profit.

Do City projects have to pay sales tax and permitting costs?

- Yes. City projects pay all the taxes and regulatory fees that private sector projects pay.

What oversight occurs to prevent cost overruns?

- Efficient and skilled project management is the key to preventing cost overruns. In addition, accurate estimates, a good bidding climate and good contractors also contribute to preventing cost overruns.
- The Director of the Parks Planning and Development Division is responsible for controlling expenditures on projects. Any time a change is required, the project manager must review the change with his or her manager. The Director approves all change orders for all projects.
- Project Steering is a committee within Parks made up of Park division directors. All project scope changes that require additional funding to the project or schedule changes of more than a quarter are required to be reviewed at Project Steering.

Pro Parks Levy Acquisition Projects

Seattle Parks and Recreation is purchasing property in more than 45 areas throughout the city. The sites range from a 10,000 square foot property for a new neighborhood park to a ten-acre parcel for greenbelt preservation.

While each property transaction is unique, the following three completed projects illustrate the types of cost breakdowns experienced on recent acquisitions.

As in any real estate transaction, the purchase price is determined by a number of considerations, such as property size, zoning, location, views, and height limits.

One of the costs included in the examples below is grant applications. To date, levy funds for acquisition have been matched with more than \$18 million in public grants and private donations.

North Open Space - Little Brook: In 2002, Seattle Parks purchased two acres along Little Brook at 11715 36th Ave NE, in cooperation with Seattle Public Utilities. Little Brook is a tributary of Thornton Creek. Funding sources included Pro Parks Levy, Seattle Public Utilities, and the King County Conservation Futures Tax (CFT).

Cost Breakdown		
Purchase cost	\$1,250,000	94.0%
Planning and grant applications	8,036	0.6
Appraisal, title and closing costs	4,527	0.3
Environmental site assessment	1,896	0.1
Negotiation and legislation	28,823	2.1
Survey, legal, other	11,441	0.9
Demolition of existing structures	<u>25,958</u>	<u>2.0</u>
	\$1,330,681	100%



Queen Anne park site in Uptown: In 2004, Seattle Parks purchased a .28-acre site at Queen Anne Avenue N. and Roy Street. Selecting a priority site in this densely developed neighborhood included an extensive public process that involved evaluation of a number of potential sites and their characteristics, a public walking tour, and community meetings. The top priority site was a former gas station and costs were incurred related to the former use. Funding sources were the Pro Parks Levy and CFT.

Cost Breakdown		
Purchase cost	\$1,725,000	92.5%
Planning and grant applications	70,997	3.8
Appraisal, title and closing costs	2,817	0.7
Environmental site assessment	21,590	1.2
Negotiation and legislation	32,027	1.7
Survey, legal, other	<u>2,107</u>	<u>0.1</u>
	\$1,864,538	100%



York Park: This .27-acre site at 3650 Renton Ave. S. in Southeast Seattle was formerly City Light's York Substation. It was acquired from City Light in 2003 through the Pro Parks Levy. City Light commissioned the independent appraisal.* The property is being developed as a new neighborhood park.

Cost Breakdown		
Purchase cost	\$144,000	89.3%
Planning	2,102	1.3
Appraisal, title and closing costs	0	0.0*
Environmental site assessment	2,926	1.8
Negotiation and legislation	5,115	3.2
Survey, legal, other	<u>7,103</u>	<u>4.4</u>
	\$161,246	100%



Acquisition Projects - Frequently Asked Questions

How does the Parks property acquisition process work?

- The City's property acquisition process typically works as follows:
- Using criteria specified by an available funding source, such as the Pro Parks Levy, priority properties are identified by Parks acquisition staff in cooperation with the surrounding community and the Pro Parks Levy Oversight Committee.
 - Parks acquisition staff members order a title report to identify the owner of the property and any encumbrances to the title.
 - City representatives contact the property owner, advising of the City's interest.
 - An independent appraisal to determine fair market value is ordered.
 - Upon receipt and review of the appraisal, City representatives begin negotiations by presenting a written offer to purchase the property at a price based on the appraisal.
 - The City and seller come to terms through a purchase and sale agreement, conditioned on feasibility studies and environmental site assessments.
 - Legislation is prepared to authorize the purchase and appropriate the funds.
 - The acquisition is completed.

Does Seattle Parks have to pay to acquire other publicly owned property?

Current state law requires that rate-based utilities, such as Seattle City Light, be compensated for the sale of their assets.

What factors influence the cost of a property acquisition?

The purchase price is determined by independent appraisal; zoning, size, view, location and comparable sales in the area are among the factors considered. As shown in the examples, a commercially zoned site in a Queen Anne business district was significantly more expensive per acre than a property along Little Brook zoned for single-family use. Other City cost considerations include whether extensive planning and site analyses were needed to select the property for City purchase, and whether former uses at a site, such as a gas station, required legal or environmental review.



Pro Parks Levy and Community Center Levy

Project Cost Analysis: How Your Levy Dollars Are Spent

Seattle Parks is currently undertaking more than 175 park acquisition and development projects through the 1999 Community Center Levy and the 2000 Pro Parks Levy.

With the support of Seattle voters, these projects are making a positive difference in neighborhoods throughout the city. They are building new community centers, preserving green space, improving playfields, and creating new neighborhood parks in densely developed areas.

In response to questions that citizens have asked about costs and budget breakdowns for acquisition and development projects, this brochure was prepared for the Pro Parks Levy Oversight Committee. It provides information about how the costs for these projects are allocated across several categories, such as planning, design and construction, and details several completed projects as examples.



The Pro Parks Levy project at Cal Anderson Park has added four acres of new park space on Capitol Hill, including a new water feature.

Community Center Levy
and Pro Parks Levy
Development Projects

Seattle Parks is developing new parks and facilities and improving existing parks throughout the city. Nine community centers are being built or expanded through the 1999 Community Center Levy. The Pro Parks Levy names 95 park development projects, and 25 additional development projects were identified through the Levy's Opportunity Fund.

Three development projects are detailed to the right as examples of a range of completed projects and their associated costs.

Project phases are shown in the table's rows.

- Planning:**
- Project startup
 - Create community project advisory team
 - Create and review design program
 - Public process, mailings and community meetings
 - Environmental Review (SEPA)
- Design:**
- Staff costs for project design consultant selection
 - In-house or consultant design fees
 - Additional public process related to design
 - Presentations to Design Commission, Landmark Preservation Board, Board of Park Commissioners
 - Permit costs
- Construction:**
- Bid process, advertising, printing, pre-bid conferences
 - Construction contract amount and 8.8% sales tax
 - Inspection fees by Seattle Parks and Seattle Department of Planning and Development
 - Project management time to oversee project, attend weekly construction meetings, process pay applications, and closeout
- City Cost Allocations:**
- 1% for Art, City's Contracting Division, City of Seattle Law Department, Seattle Design Commission

Direct costs and project management/overhead costs are shown in the table's columns.

Direct Costs: Includes permitting, design consultant contract, contractor contract and sales tax.

Project Management and Overhead Costs: Includes project management staff, benefits, vehicles, computers, building space and support staff. Instead of charging each project individually for costs such as paper, computers and gas in vehicles driven to projects, Parks applies an overhead rate to the project manager costs. This rate is reviewed annually to ensure that Parks is charging appropriately to cover the general costs it takes to develop the project.

	Category	Direct Costs		Project Management and Overhead		Total	
		Costs	% of Total	Costs	% of Total	Costs	% of Total
Yesler Community Center	Planning	\$5,777	0.1%	\$91,263	1.3%	\$97,040	1.4%
	Design	\$995,326	14.2%	\$125,266	1.8%	\$1,120,592	16.0%
	Construction	\$5,575,945	79.4%	\$85,459	1.2%	\$5,661,404	80.6%
	City Cost Allocations	\$0	0.0%	\$140,261	2.0%	\$140,261	2.0%
	Total	\$6,577,048	93.7%	\$442,249	6.3%	\$7,019,297	100%
Bergen Place Park	Planning	\$0	0.0%	\$14,052	5.0%	\$14,052	5.0%
	Design	\$31,338	11.3%	\$26,503	9.5%	\$57,841	20.8%
	Construction	\$193,360	69.4%	\$7,693	2.8%	\$201,053	72.2%
	City Cost Allocations	\$0	0.0%	\$5,588	2.0%	\$5,588	2.0%
	Total	\$224,698	80.7%	\$53,835	19.3%	\$278,533	100%
Greenwood Park	Planning	\$0	0.0%	\$31,486	2.4%	\$31,486	2.4%
	Design	\$116,791	8.7%	\$40,965	3.0%	\$157,756	11.7%
	Construction	\$1,032,439	77.1%	\$90,632	6.8%	\$1,123,071	83.9%
	City Cost Allocations	\$0	0.0%	\$26,565	2.0%	\$26,565	2.0%
	Total	\$1,149,230	85.8%	\$189,648	14.2%	\$1,338,878	100%

Yesler Community Center: This new 20,000 square foot facility on First Hill opened in early 2005. It is typical of a new community center built by Seattle Parks and is being well-received by the community. Factors that affect project costs include public process and City review and approval. For example, three public meetings were held regarding the center's location. Four public meetings related to the project design, including the 1% for Art installation at this site. The community project advisory team met 11 times. The project design was reviewed and approved by the Design Commission. City Council approved an agreement with Seattle Housing Authority for the property transfer. The project came in over bid, but was redesigned and bid successfully the second time. The project consultant covered redesign costs.



Bergen Place Park: This urban plaza in the heart of downtown Ballard was renovated to bring more light and community use into the park, while retaining its historic Scandinavian references. Factors that affected the cost breakout for this Pro Parks Levy development project included an extensive public process during the planning and design phases, and a 1% for Art installation at the site. This example illustrates that on projects with relatively small budgets, the planning, design and public process costs are likely to represent a higher percent of the overall project budget.



Greenwood Park: This new 2.2 acre park provides important open space in a neighborhood that is experiencing rapid growth. Pro Parks Levy project elements included a play area, comfort station, large grassy field, natural drainage systems, and art that reflects the history of the neighborhood and the site. A portion of the planning and design process was conducted through a small and simple neighborhood matching grant, which reduced the amount budgeted through the levy project for these aspects of park development.



Development Projects – Frequently Asked Questions

Do City projects have to pay sales tax and permitting costs?
Yes. Parks has to pay all the taxes and regulatory fees the private sector pays.

How are project budgets established?
Project budgets are based on historical cost information from previous projects. Once funding is approved, the project manager uses a template to estimate the initial cost breakout (e.g. planning, design, construction) and develops a project budget. As the project is developed and costs are known, Parks regularly updates the project budget.

If a project budget is \$300,000, why is the construction amount only a portion and not the full amount of the budget?
As shown in the examples, there are many associated costs in building a project, such as permits, design consultants, public meetings, presentations to boards and commissions, sales tax, and staff time.

What does Parks do to prevent cost overruns?
Efficient and skilled project management is the key to preventing cost overruns. Accurate estimates, good bidding climates and good contractors also contribute to keeping projects on budget. Parks employs regular, detailed oversight of project budgets and closely monitors all change orders. An internal Parks steering committee consisting of senior staff meets twice a month and reviews all project scopes, budgets and schedule variances.

How does the 1% for Art program work?
For the Pro Parks levy, a 1% for Art Plan was developed to collect funding from each development project, and to allocate the funding to specific artworks and projects. For more information, see: www.seattle.gov/parks/arts/default.htm#planning

For more information, see:

Community Center Levy website:
www.seattle.gov/parks/Centers/comcenlevyprog99.htm

Pro Parks Levy website:
www.seattle.gov/parks/proparks/